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SUBJECT: LOWER HOUSE CONSIDERS BUDGET

REF: 05 AMMAN 8823

1. SUMMARY: Jordan's draft Budget Law for 2006 in front of Parliament's Chamber of Deputies this week estimates a deficit of USD 635 million, with gross public expenditures at USD 4.9 billion, revenues at USD 4.2 billion, and foreign aid at USD 333 million. In the budget submission, the Deputy Prime Minister and Minister of Finance projected nominal GDP growth at 11 percent and inflation at 4 - 5 percent for 2006. The budget includes a planned reduction of fuel subsidies in 2006, with future plans to eliminate all fuel subsidies by 2007 and other subsidies by 2010. The budget assumes an average crude oil price of USD 60 per barrel for the year. The House Finance and Economics Committee nominally endorsed the draft Budget Law, and made several recommendations to reduce expenditures by up to USD 127 million. It is possible some proposed cuts will be adopted by the full parliament and accepted by the government, in a departure from past years when parliament gave its approval without any GoJ concessions. In another departure, the government announced an end to its practice of approving subsequent 'annex' revisions to the budget without parliamentary approval. The GoJ is currently operating under a continuing resolution. It is anticipated that the budget will become law by mid-March. END SUMMARY.

2. The Chamber of Deputies started debate of the budget on February 12. The government submitted the draft budget in late December, and the House Finance and Economics Committee concluded its deliberations earlier this month. The committee's report included 23 recommendations. Seven of the 11 committee members publicly declared that these recommendations were a condition for their favorable vote in the final Chamber vote.

Budget Highlights

3. Budget highlights (GoJ published numbers converted to USD million):

The Draft Budget Law proposes:

-- Gross public revenues at USD 4.231 billion, slightly lower than the 2005 re-estimated budget.

-- Domestic revenue at USD 3.898 billion, USD 365 million higher than the 2005 re-estimated budget. The bulk of the increase in domestic revenues, USD 358 million, represents an increase in tax revenues.

-- Foreign grants at USD 333 million, approximately USD 400 million lower than the 2005 re-estimated budget.

-- Gross expenditure at USD 4.951 billion, USD 497 million higher than the 2005 re-estimated budget.

-- Current expenditure at USD 3.663 billion, an increase of USD 102 over the published 2005 re-estimated budget.

-- Fuel subsidies at USD 175 million are USD 262 million lower than the published 2005 re-estimated budget, and USD 593 million lower than the reported (but not officially published) total cost of fuel subsidies in 2005.

-- Interest due on domestic public debt to increase by USD 150 million.

-- Subsidies of commodities, including wheat for bread and fodder, at USD 63 million. This is now a separate budget line item.

-- Capital Expenditures at USD 1.189 billion, an increase of USD 297 million, of which USD 212 million is allocated for projects recommended by the National Agenda (REFTEL).

2005	2006	Change
Re-estimate	Budget	Percent
(mn)	(mn)	

Total Revenues	4,266	4,231	(0.8)
Domestic Revenues	3,533	3,898	+ 10.3
of which			
Taxes	2,434	2,793	+ 14.7
Non-Tax Revenue	1,038	1,063	+ 2.5
Payback of loans	61	42	(30.2)
Foreign Grants	733	333	(54.6)

Total Expenditures	4,453	4,866	+ 11.2
Current Expenditures	3,561	3,677	+ 2.9
of which			
Civil Service Agencies			
925	986	+ 6.6	
Military Agencies	975	1,008	+ 3.5
Others	1,661	1,683	+ 1.3
of which			
Fuel subsidies	437	175	(60.0)
Commodities			
Subsidies		63	new item
Pensions	584	671	+ 15.0
Interest on Debt			
Domestic	97	247	+153.6
Foreign (commitment basis)	261	247	(5.4)
Capital Expenditures	892	1,189	+ 33.3
Of which			
National Agenda Projects			
0	212	new item	
Socio-Economic Transformation Program			
130	86	(33.7)	

Deficit

Factoring in Foreign Grants	187	635
Excluding Foreign Grants	920	968

** The 2005 re-estimated budget numbers do not reflect additional expenditures, including an additional USD 331 million for fuel subsidies tallied by the Minister of Finance. NOTE: GoJ officials have stated on numerous occasions that the fuel subsidy bill exceeded all expectations in 2005; they have yet to submit an annex to the 2005 Budget that would reflect actual increases in expenditure levels and the resulting deficit. END NOTE.

14. Deputy Prime Minister and Minister of Finance Ziad Fariz in his December presentation to the Chamber of Deputies projected 11 percent growth in GDP at current prices during 2006; he projected an inflation rate measured by the GDP deflator in the 4 ? 5 percent range.

Deficit

15. The budget deficit, including grants, is estimated at USD 635 million, or 4.5 percent of GDP, an improvement over the 2005 re-estimated deficit of USD 677 million, or 5.4 percent of GDP. The budget deficit, before foreign grants, is estimated at USD 968 million, or 6.9 percent of GDP. In the 2005 re-estimated budget, the amount was about USD 1.4 billion, or 11.2 percent of GDP.

Grants

16. The budget estimates foreign grants for 2006 at USD 333 million, or 7.9 percent of public revenues. This is a conservative estimate compared to 2005 when it was initially proposed to be USD 1.5 billion, or 34.6 percent of public revenues, and later re-estimated at USD 733 million, or 17.2 percent of public revenues. For 2006, external grants are projected to fund about 28 percent of capital expenditures.

Subsidies

17. Fuel subsidies are projected at USD 175 million, compared to an estimated USD 768 million for 2005. The budget reflects the GoJ commitment to gradually reduce fuel subsidies in 2006 and to their elimination by March 2007. NOTE: The budget is based on crude oil prices of USD 60 per barrel. Jordan imports mainly Arab heavy crude from Saudi Arabia. The cost per barrel is usually \$8-10 lower than

?Brent Crude? and ?West Texas Intermediate? rates quoted in international media. END NOTE.

18. The Minister of Finance stated that the government will implement a program to gradually phase out all other forms of subsidies over the coming four years. Examples include subsidies for commodities like grain, as well as for independent institutions, particularly those that generate their own revenues.

Revenues

19. Gross public revenues are projected at USD 4.23 billion, or 30.2 percent of GDP, a slight drop from the 2005 re-estimate of USD 4.26 billion, or 33.8 percent of GDP. The expected slight drop in public revenues is primarily the result of the decline in foreign grants. Although domestic revenue projections increased, the difference does not offset the decline in grants.

110. Domestic revenues in 2006 will reach USD 3.9 billion, representing 27.8 percent of GDP. Domestic revenues provide coverage for all current expenditures and 19 percent of capital expenditures. In 2005, domestic revenues covered only 87 percent of the current expenditures.

Expenditure and the National Agenda

111. Public expenditure in 2006 is estimated at USD 4.87 billion representing 34.7 percent of GDP, compared to USD 4.45 billion in the re-estimated 2005 Budget.

112. Current expenditures for 2006 are estimated at USD 3.66 billion, 3.25 percent above the current re-estimated budget for 2005. Deputy Prime Minister (DPM) and Minister of Finance Fariz stated that current expenditures in 2006 are 9.3 percent lower than its re-estimated level for 2005, and that this is the result of the anticipated drop in the fuel subsidy bill during 2006. Compared to last year's fuel subsidy expenditure (pending in the 2005 annex), the current expenditures as a percentage of GDP will decline from 32.1 percent in 2005 to 26.2 percent in 2006.

113. Capital expenditures are estimated at USD 1.2 billion representing 8.5 percent of GDP, compared to the USD 892 million re-estimated level for 2005.

114. USD 212 million of the capital expenditures account is earmarked for projects recommended by the National Agenda. These projects are detailed in specific budget line items within their respective ministries.

DPM holds hope that 2005 Budget Annexes are the last

115. The GoJ has frequently issued annexes to budgets and presented them to the parliament after the conclusion of fiscal years to be issued retroactively. The increase in the 2005 current expenditures over what had been allocated in the General Budget Law followed the same path. When presenting the annexes with the 2006 budget, the Minister of Finance told the House that "we hope that this is going to be the last annex to be presented to parliament without securing its prior approval."

Recommendations of the House Finance & Economics Committee

116. The House Finance and Economics committee made 23 recommendations to the GoJ on the budget and suggested reduction in expenditure allocation of over 30 budget line items totaling USD 127 million. Some of these recommendations are not directly related to the budget; they mostly relate to government policy in the areas of investment promotion, privatization, water resources, poverty alleviation, and agriculture. The committee also questioned expenditures for National Agenda projects.

117. Some of the recommendations call for stricter budgetary controls, prior approval by the parliament of any future budget annexes, and an assessment of the country's current balance and the ways to improve it.
COMMENT: While the recommendations are not binding on the government, it is likely that the GoJ will agree to reduce expenditure in some of the suggested areas. This is a departure from the past, when parliament made a show of debating and criticizing the budget but then gave its approval without any GOJ concessions. END COMMENT.

Next Steps

118. The Chamber of Deputies concluded its debate of the Budget on February 15. After a vote by the Chamber, the budget is referred to the Senate. Historically, draft budget laws have passed through the Senate swiftly. The final step is endorsement by the King and publication in the Official Gazette. Using 2005 as a benchmark, the 2006 budget should be law by mid-March.

119. In line with the Constitution, the government is currently observing a continuing resolution status, and is allowed to spend up to one twelfth of the 2005 budget each month.

Public Debt

120. The foreign debt balance at the end of October 2005 declined to the equivalent of USD 7.2 billion which is lower than its level at the end of 2004 by approximately USD 331.5 million, a decline of about 4.4 percent. This lower balance brings the ratio of foreign debt to GDP to 58.3 percent compared to 65.5 percent at the end of 2004.

121. The decline in the foreign debt stock is due mainly to the drop in the U.S. Dollar exchange rate against major currencies. NOTE: The Jordanian Dinar has been pegged to the U.S. Dollar since the end of 1995. END NOTE.

122. The net domestic public debt balance reached USD 3.1 billion through October 2005, exceeding its 2004 level by USD 534.6 million. This brings the ratio of domestic public debt to GDP up to 25.2 percent compared to 22.5 percent at the end of 2004.

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